This record is a partial extract of the original cable. The full text of the original cable is not available.

030733Z Sep 05

ACTION AF-00

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INFO  LOG-00   NP-00    AID-00   CEA-01   CIAE-00  CTME-00  INL-00
      DODE-00  DOTE-00  PERC-00  DS-00    EB-00    EUR-00   EXIM-01
      E-00     FAAE-00  VC-00    FRB-00   H-00     TEDE-00  INR-00
      ITC-01   LAB-01   VCE-00   M-00     AC-00    NEA-00   NRC-00
      NSAE-00  NSCE-00  OES-00   OMB-00   NIMA-00  MCC-00   GIWI-00
      ACE-00   FMPC-00  SP-00    IRM-00   SSO-00   SS-00    STR-00
      BBG-00   R-00     EPAE-00  IIP-00   SCRS-00  DSCC-00  PRM-00
      DRL-00   G-00     NFAT-00  SAS-00   SWCI-00    /004W
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FM AMEMBASSY NDJAMENA
TO SECSTATE WASHDC 2248
INFO AMEMBASSY ABUJA
AMEMBASSY DAKAR
AMEMBASSY LIBREVILLE
AMEMBASSY LONDON
AMEMBASSY NIAMEY
AMEMBASSY PARIS
AMEMBASSY YAOUNDE
DEPT OF TREASURY WASHDC
USDOC WASHDC
DOE WASHDC

C O N F I D E N T I A L NDJAMENA 001357

SIPDIS

LONDON AND PARIS FOR AFRICA WATCHERS, TREASURY FOR OTA,
ENERGY FOR GPERSON AND CGAY

E.O. 12958: DECL: 08/18/15
TAGS: ECON EFIN ENRG EPET PGOV CD
SUBJECT: CHAD'S OIL REVENUE MANAGEMENT PROCESS: SHOWING
SIGNS OF STRAIN

Classified By: Political/Economic Officer Kathleen FitzGibbon for reaso
ns 1.4 (b) and (d).

¶1. (C) Summary: The recently released report of Chad's Oil Revenue Management College's verification of projects highlights some of the issues now arising over the use of petroleum funds. The College found numerous deficiencies such as non-delivery or significant delays in delivery of items, poor quality of services provided, and some instances of fraud as it inspected projects approved in 2004. The College made recommendations to the various ministries responsible for the priority sectors, but the responsibility for follow-up and accountability to their recommendations is unclear. We have also learned of examples of encroachment on the College's mandate including the Prime Minister's requests for exceptions to the regular contracting process and President Deby's request for use of the stabilization fund in order to pay salaries of civil servants, who are about to go on strike. Growing pressure to use petroleum funds for additional "priority areas" makes it a foregone conclusion that the government will seek to revise the law governing use of funds. The international community, including the World Bank and major donors should be seeking to shape the debate so that any changes are consistent with the goal of poverty reduction. The transparent expenditure of the oil revenues and reform of the budgetary process requires close examination and will benefit from the presence of a resident U.S. Treasury Advisor. End Summary.

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REPORT FINDINGS
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¶2. (U) Chad's Oil Revenue Management College recently published its report on its visits to projects approved in ¶2004. The report highlights a number of serious problems and makes recommendations to the various ministers responsible for the priority sectors (Education, Water Resources, Agriculture, Health, and Infrastructure). Some of the deficiencies identified in the educational sector include lack of delivery or poor quality of contracted items such as desks and books, delays and/or non-construction of classrooms, and lack of a point of contact within the Ministry to answer the College's questions about these issues. Contract delays, non-delivery of motor-bikes and communications, and lack of contact with local government authorities in Moissala, Bousso, and Wadijigui about proposed projects in their areas were identified in the Water Resources sector. According to the College report, contractors only constructed two instead of four water distribution points. In the agriculture sector, the College identified corrupt practices, including double charging for transport, dubious quality of pesticides, and materials that never arrived at intended sites. The College also questioned

use of funds by the research institutions, such as the University of N'Djamena and the government research center at Farcha. In the health Sector, the College questioned the abandonment of a health center project at Abdi, in Ouaddai. The two roads projects visited were moving ahead, but not yet completed.

¶3. (U) The College recommended an increase in the number of verification visits to project sites and public awareness campaign to explain the role of the College to Chadians throughout the country. The College also called for discussions among each of the priority sector ministers to discuss project deficiencies and work to resolve the disconnects between the Minister of Finance and the institutions of financial control (dispensing). It recommended that the university accounts be audited for fraud and that contractors be penalized for failure to execute the contracts properly. Other recommendations included the need for priority sector ministries to involve and inform local authorities in projects and resolving a lack of understanding among local populations about price of oil and management of the oil revenues.

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MIXED GOVERNMENT REACTION
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¶4. (C) P/E and E/C officer met with Dobian Assingar, representative of human rights groups on the College, on August 18 to discuss the report and its likely consequences. According to Assingar, when the report was presented to President Deby and his immediate advisors, their first reaction was one of anger and disappointment over the non-execution of projects by government ministers. However, they also noted to the College that the government should have seen the report prior to its public distribution.

¶5. (C) According to Ahmat Saleh Bodoumi, a ruling Movement for Patriotic Salvation (MPS) deputy who represents the National Assembly on the College, the report should have been given directly to the Government for a response. After fifteen days, the College transmits it to the Supreme Court and releases it to the public. At this juncture, the Supreme Court has requested that the College submit a letter requesting it to take action on any deficiencies.

¶6. (SBU) During a courtesy by the Ambassador, DCM, and E/C Officer, the recently-appointed Minister of Finance, Abbas Tolli, stated that the Government continues to support the process established by the Revenue Management Law and the independence of the College. Nevertheless, he noted that the priorities of the current Revenue Management Law required revisions, given immediate problems not foreseen by the drafters of the law. Tolli indicated that the Government was planning to re-advocate the abolition of the Fund for Future Generations, as the resources of the fund needed to be utilized for present social needs.

¶7. (SBU) On August 25, during a meeting with E/C officer, Director of Cabinet for the Ministry of Petroleum, Abdelkarim Abakar, said that the Ministry was concerned by the deficiencies highlighted by the College's report. However, he explained that while the shortcomings were worrisome, a matter of greater concern was the World Bank's ineffectiveness to generate the means to correct these deficiencies. Abakar argued that the failure of the Bank to deliver on capacity-building initiatives has resulted in the inefficient management of the oil revenues. With regards to the Revenue Management College, he said that the Ministry is highly supportive of the independence of the College and the transparent management of oil revenues, but feels that this process demands enhanced international support if it wishes to be a success.

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GOVERNMENT REQUESTS USE OF STABILIZATION FUND
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¶8. (C) Assingar stated that prior to the recent cabinet reshuffle, former Minister of Finance Ngueyam Djaibe arrived at a weekly College meeting to request, on President Deby's behalf, 4 billion FCFA (approximately 8 million USD) from the stabilization fund to pay for outstanding salaries (the fund itself was established in July 2003 to manage external price shocks). According to Djaibe, the Government was making the request to demonstrate responsibility to the international financial institutions and to avoid a series of potentially destabilizing strikes. While Assingar himself raised concerns about an apparent circumvention of the Revenue Management Laws with Djaibe's request, the other members of the College approved the request without debate. He expressed to P/E and E/C officers his concern that this request is the first of many to come.

¶9. (C) Bodoumi said that the stabilization fund can be used

for situations to absorb external shocks. He said the College approved the Government's request because the current dire financial situation of the government constitutes an urgent situation and a potential government-wide shock. He agreed with Assingar that there is a high likelihood the Government will continue to make such requests. Bodoumi is also a member of the Petroleum Committee in the NASS and has backed the College since its inception. He said the Government has yet to explain to the National Assembly where the budgeted funds and monies from donors have gone for 2004 and 2005. Bodoumi is particularly concerned with corruption surrounding the funds spent on the public referendum, particularly those off-budget monies. According to several

sources within the ruling party, each Governor was given at least 400,000 USD. Several ministers were fired for their failure to deliver the vote and account for money given to them late last year for the registration and referendum.

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OTHER CONCERNS
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¶10. (C) Assingar and Bodoumi also described attempts by GOC officials to circumvent normal contracting procedures in order to give projects to friends and allies. For example, Prime Minister Pascal Yaodimindji requested exceptions to normal contracting methods. According to Assingar, the College can approve exceptions in the case of extreme urgency, or contract specific services which require a firm which specializes in a particular service, or in a case where money can be saved if a particular contractor is used. However, the Prime Minister allegedly tried to reward his friends with contracts for projects with the oil revenues. For example, one contract was issued for 800 million FCFA for a one kilometer road allegedly to a friend of the Prime Minister. The road was constructed with oil revenues at the request of President Deby for security reasons. Boudoumi told us that Deby needed a direct road to the airport that would not take his motorcade in front of two military installations (the Nomadic Guard and the Gendarmerie). The College rejected a different request from the Prime Minister for another exception to the contracting procedures. The Prime Minister wrote back insisting on the contract, claiming that the College's refusal amounted to insubordination to President Deby. College President Lamana Abdoulaye, who represents the National Assembly, complained when the College members questioned why the Prime Minister had resent the request. According to Dobian, Lamana said that if the College refuses the Prime Minister's request, it would create a "crisis between the two institutions (namely, the College and the Prime Minister's office)". The World Bank issued a statement expressing its concerns about the circumvention of contracting procedures.

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IMF PRESENTS ITS OWN ASSESSMENT
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¶11. (C) On August 21, Ambassador and E/C officer met with IMF Representative Wayne Camard and Technical Assistance Deputy Director Pierre Van Den Boogaerde, who is leading a joint IMF-World Bank mission to assess Chad's PRGF progress. According to Van Den Boogaerde, Chad's Revenue Management Process is experiencing operational difficulties, rather than transparency issues. The major problem with the process, noted Van Den Boogaerde, is the complexity of the system (which currently separates the budget of the oil revenues and the national budget), which prevents the government from accurately ascertaining its revenue and expenditure levels. Complicating matters are the lower-than-expected revenues associated with oil production, and a continuation of spending at the end of FY 2004 by the GOC even when they lacked the adequate financial resources. According to Van Den Boogaerde, spending on military operations in Darfur and the June referendum had little impact on the revenue shortfalls. Both officials said that the burden of the budgetary system would be eased by the creation of a single treasury account that combines the regular budget and the oil budget. They also pointed out that this system could still safe-guard the role of the College, allocate resources for the oil-producing regions and the Fund for Future Generations, emphasize the theme of social expenditures of the existing Revenue Management Laws. They noted that the team was discussing the possibility of proposing this idea in the beginning of 2006 when the Revenue Management Laws would be up for revision.

¶12. (C) The Ambassador then raised some of the concerns highlighted by Assingar to Camard and Van Den Boogaerde. Van Den Boogaerde said that he did not understand how the government could take resources from the Stabilization Fund, as currently the Fund lacked resources. He and Camard pointed out that the recent expenditure of salaries of 4 billion FCFA actually conformed to the National Budgetary

Law, for the Law permits the government to substitute oil revenues for a immediate social expenditure not accounted for in the creation of the national budget, such as salaries. In return, the government is required to compensate the shortage in the oil budget by this expenditure by transferring resources from the regular budget to the oil budget. Van Den Boogaerde assured the Ambassador that this process still upholds the mandate of the Revenue Management College, which makes the final decision on this initiative. He also commented on the GOC's overall compliance with the spirit of the Revenue Management Process, saying that the Government has supported the Revenue Management Laws and the presence of the College. The IMF did reject the GOC's request to eliminate the Fund for Future Generations, which, according to the two officials, is the only formal attempt by the GOC to seek amendments to the Revenue Management Process.

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COMMENT
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¶13. (C) Chad's oil revenues are protected by the Revenue Management Law to ensure their transparent and accountable use for poverty alleviation. Swift action by the various ministries in the priority sectors on the verification reports' recommendations could demonstrate the Government's commitment to the process. The World Bank should also deliver on promised assistance to bolster the College's internal transparency measures.

¶14. (C) The differences of opinion between the Government, international financial institutions, and civil society over interpretation of the law and the proper use of the revenues are to be expected as the system is finally being tested. Civil society representatives are particularly concerned over what they view as the Government's weakening commitment to poverty alleviation and mismanagement of other budget revenues. The Government may also be misinterpreting signals from the international financial institutions on eventual revision of the law governing use of oil revenues. The international community, including the World Bank and major donors should be seeking to shape the debate so that changes are consistent with the goal of poverty alleviation. The transparent expenditure of the oil revenues and reform of the budgetary process requires close examination and will benefit from the presence of a resident U.S. Treasury Advisor.
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